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Gearing for growth

CENTRAL to the success of Labuan as an International Offshore Financial Centre (IOFC) is the role of the Labuan Offshore Financial Services Authority (Lofsa) in its promotion, development and administration. Set up as a one-stop agency on Feb 15, 1996, the one-year-old institution has the task of steering Labuan's orderly growth. Its members comprise representatives from the government and private sector with diverse business and professional backgrounds. Its chairman is Bank Negara governor Tan Sri Ahmad Mohd Don. Lofsa reports directly to the Minister of Finance.

Much has been achieved by Lofsa since its inception as the single regulatory agency coordinating and spearheading the development of the offshore financial services industry in Labuan. It is undergoing a particularly vibrant growth at the moment and this is reflected in the ever changing statistics tracking the number of institutions setting up operations on the island. Even as he was being interviewed for this article, Lofsa director-general Dr Awang Adek Hussin who is responsible for its day-to-day operations was pointing out figures which had become obsolete within the last month. He spoke to Malaysian Business about the latest developments charting the growth of the Labuan IOFC. Excerpts: Its been seven years since Labuan was declared an IOFC. Could you give a status update?

To date, there were about 1,600 offshore and related companies registered in Labuan. There are now 62 offshore banks which as a whole posted a phenomenal 73.2 per cent rise in pre-tax profits last year. Equity participation by Malaysians increased by more than 300 per cent which is attributed to the injection of capital resulting from the restructuring of Malaysian-Re International Insurance (L) Ltd. There are also 22 insurance and insurance-related companies in Labuan, together with 20 trust companies. Our growth in 1996 almost equalled the combined growth in the previous five years. It is expected that for 1997, the growth is even better than 1996.

What is the biggest challenge facing Lofsa and how is it being tackled? Building on the initial success of establishing Labuan as an IOFC, we have embarked on a two-pronged strategy to give Labuan the required competitive edge. This is to be done by the creation of a complete range of offshore financial services together with the development of Islamic instruments as a way of creating a niche in financial services for Labuan. Towards this end, efforts have been intensified to provide a legal framework conducive for the development of diversified offshore financial activities. The Labuan Offshore Trusts Act came into effect in October last year. Amendments to the Offshore Companies Act 1990 and Offshore Banking Act 1990 were also passed by Parliament last year.

This year, amendments to the Insurance Act has been completed, a new Act on limited partnership has been put in place and the Offshore Securities Industry Act is expected to be passed before the end of this year. The remaining challenge is to promote Labuan effectively to the world and to attract skilled professionals to reside here.

Lofsa's strategy to make Labuan IOFC a centre for Islamic Finance and Banking?

Islamic banking, insurance services and capital market instruments are already developed in the domestic market. The logical extension is to

transport this expertise to Labuan, creating a niche unmatched anywhere in the world. Several Islamic banks and specialised management companies providing advisory services and consultancies will be admitted to the IOFC. Bank Islam is already present. Last year, the Amanah Dar Al Maal Islamic Fund (Adil) trust fund jointly run by Faisal Finance (Switzerland) and Innosabah Equity Trust Sdn Bhd was launched in Labuan. A Takaful company has also been formed. We are now embarking on the project to establish an Islamic International Money market here.

Labuan appears as a mere dot on the map. How does its location serve as an advantage?

Accessibility is Labuan's advantage. It is easily accessible by air from many capital cities in the region. It also shares virtually the same time zone with Jakarta, Hong Kong, Singapore, Manila, Brunei and Bangkok. Doing business in Labuan is very easy. Labuan is the only offshore financial supermarket in the vicinity of the rapidly expanding economies of Asia. The cost of operations is also very low.

Quantitative advantages?

We have among the lowest tax rates on off-shore companies (3 percent of profits or RM20,000). Expatriates pay only 15 percent income tax as opposed to a maximum of 30 percent for Malaysians.

How does Lofsa promote Labuan to the world?

Lofsa has embarked on a number of roadshows to promote the offshore financial services available in Labuan. Last year, the promotions were done in Taiwan and Korea. This year we have been to Hong Kong, the Middle East and Jakarta. Next year we are planning to do the same in North America and Europe.

Our website on the Net launched recently gives surfers useful information on offshore activities and banking operations, trust fund management, insurance and related businesses. We have also advertised in numerous international magazines and written articles in international publications on Labuan.

How has Labuan's infrastructure developed to cope with the demands in keeping with its new-found status?

The most visible has to be this very building we are in, the Labuan Financial Park Complex, which was opened by Prime Minister Datuk Seri Dr Mahathir Mohamad in August last year. Labuan has an International School and a modern hospital linked to Kuala Lumpur and Langkawi for services offered via telemedicine.

In June this year Deputy Prime Minister Datuk Seri Anwar Ibrahim launched the RM123 million Telekom Malaysia Bhd Teleport in Layang-Layang which provides sophisticated telecommunication services for the IOFC. At the same time, a new airport is being constructed and many housing schemes have been completed.

Lofsa's first-year financial performance?

The bulk of our revenue of RM2.2 million came from the incorporation of companies and the annual fees of offshore players. We were supported at inception by a RM6 million loan from Bank Negara Malaysia. Lofsa recorded a first-year deficit of RM0.7 million attributed to the initial capital outlay in connection with the setting up of the authority. We are confident of achieving a better financial performance this year in tandem with the vibrant growth of the offshore financial services industry. We should be making a surplus in 1997 which can be used to repay our loan from Bank Negara.

Is it all work and no play in Labuan?

There are plenty of recreational opportunities, especially for water sports enthusiasts. There are top notch facilities for snorkelling, diving and jet skiing. In fact yachting facilities in Labuan has been rated the

best in Asia according to Asian Marine, a leading regional boat and marine sports magazine. The waters off Labuan is also rapidly gaining a reputation for some very good game fishing. Out there you can pit your angling skills and do battle against full-sized Pacific Marlin and Sailfish. Nothing can be more relaxing after a hard day's work than to feel the sun and spray on one's back.

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